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IN THE

SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, A. D. 1940.

No. 669.

PEERLESS EQUIPMENT COMPANY, *Petitioner.*

vs.

W. H. MINER, INC., *Respondent.*

On Writ of Certiorari to the United States Circuit Court of Appeals for the Seventh Circuit.

PETITIONER'S REPLY TO RESPONDENT'S BRIEF.

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On page 2 of its brief respondent charges that we have asserted the facts of the case to be contrary to what both courts below found them to be, in order to show that there is conflict between the result reached in this case and the results reached in other cases.

The important facts of this case, on the questions of law here presented, are stated in the opinion of the Circuit Court of Appeals, as follows:

> "Except for the convexity all other elements of defendants' product were old" (R. 574).
>
> "It is clear from the record that not all shoes produced by defendant prior to the entry of the decree infringed . . ." (R. 522).

The only difference between petitioner's gears was the presence or absence of the slight convexity of the patent in suit on some of the shoes of the gear. The Court of Appeals found as a fact that starting with July, 1937,* defendant accurately measured the shoes of its gears to be sure that none would be sold thereafter having any convexity (R. 571). That some of the shoes of petitioner's gears that were sold prior to that time had some convexity was due to variations in manufacture. All shoes were manufactured in the same way, *viz.*, by drop forging which is a rough operation. The Court of Appeals found that all of the petitioner's gears were made by the same processes (R. 570).

Petitioner's gears were sold to the same customers both before and after July of 1937.

Respondent contends on page 3 of its brief that petitioner's non-infringing gears are not so good as its gears which had the convexity. We submit that the railroads who buy the gears are the only competent judges as to the value of gears and that the fact that they have continued to buy petitioner's gears without any convexity (R. 170) completely answers respondent's contention. However, if we concede, for sake of argument, that what respondent says is true, the fact

* On page 3, respondent incorrectly states that "petitioner ceased to infringe in July, 1938."

remains that petitioner's gears without the convexity sold for as much as its gears with the convexity, so it was not the convexity that earned all the profits petitioner made in its gear business.

On this state of facts the Circuit Court of Appeals concluded as a matter of law that it was impossible for respondent to make an apportionment as between that part of petitioner's profits which was earned by the basic elements of the gear, listed near the bottom of page 3 of respondent's reply, which were all old and which formed a complete gear and that part of the profits which was attributable to the presence of a convexity. The Circuit Court of Appeals also concluded as a matter of law that petitioner was relieved from the burden of proof of making an apportionment.

This is not the law that has been applied to such a state of facts by the courts of other circuits, and it is not the law as stated by this Court. In *Egry Register Co.* v. *Standard Register Co.*, 23 F. (2d) 438, 441, the Circuit Court of Appeals for the Sixth Circuit said:

> ". . . Its (defendant's) modified device did not infringe, but was sold at the same price, and the volume of sales did not drop; . . . this result must, at least, challenge critical study of any theory of profit recovery which makes it possible.
>
> "An apportionment being necessary, the burden is upon the plaintiff to make it.
>
> . . . . . .
>
> "We do not understand the Westinghouse Case as holding that, in every case where the profits cannot be apportioned, defendant must pay them all. What is there said refers, we think, to a case where apportionment is impossible because the device or structure sold by defendant is the entire patented thing, nothing more and nothing less. That seems to have been true with the case and converter there claimed."

In *Alliance Securities Co.* v. *De Vilbiss Mfg. Co.*, 76 F. (2d) 503, 504, the Circuit Court of Appeals for the Sixth Circuit stated:

> "When a patented improvement does not give the entire value to a device, the profits recoverable for infringement are measurable by the difference between what the infringer received from sales of the improved device and what he might reasonably have expected to receive from the sales of that part of it which he had the right to sell. *McCreary* v. *Pennsylvania Canal Co.*, 141 U. S. 459, 465, 12 S. Ct. 40, 35 L. Ed. 817. In such case the burden is on the party seeking a recovery of profits to show that they were made by the infringer and are apportionable between the device with and without the improvement. *Westinghouse Electric & Mfg. Co.* v. *Wagner Electric & Mfg. Co.*, 225 U. S. 604, 32 S. Ct. 691, 56 L. Ed. 1222, 41 L. R. A. (N. S.) 653."

It is apparent from these quotations that the Circuit Court of Appeals for the Sixth Circuit holds a different view as to the question of law presented by the petition in this case, and as to the correct interpretation of *Westinghouse* v. *Wagner* from that held by the Circuit Court of Appeals for the Seventh Circuit.

In *Metallic Rubber Co.* v. *Hartford Rubber Co.*, 275 F. 315, the Circuit Court of Appeals for the Second Circuit, citing *Westinghouse* v. *Wagner* as an authority in reversing the District Court which awarded all of an infringer's profits to the plaintiff, said:

> "The difficulty is that the court failed to distinguish between the cases in which, but for the patented improvement, the device would have had no sale at all, and for the wrongful use of which the infringer is made to give up all of his profits, and the cases in which the patented device could be taken away without affecting the sale of the

article for the purpose for which it had been previously used, and for the wrongful use of which device the defendant can be called upon to give up only the profits resulting from the use of the addition.

"The authorities hold that any profit gained by a defendant from the use of what was old prior to the date of the patent infringed cannot constitute any part of the compensation to be awarded to the patentee. In the instant case the market value of the addition made by defendant to the old tire is easy of ascertainment. Both kinds of tires were manufactured and sold by defendant side by side. The concurrent operations thus furnish a basis of ascertainment."

Petitioner's gears with and without the convexity were sold side by side and, subsequent to July, 1937, all were sold without the convexity. Thus the profits, if any, attributable to the convexity were easy of ascertainment.

From this last quotation and from *American Can Co.* v. *Goldee Manufacturing Company,* 31 F. (2d) 492; affirmed 31 F. (2d) 494, it is to be seen that the Circuit Court of Appeals for the Second Circuit also disagrees with the Circuit Court of Appeals for the Seventh Circuit as to the law applicable to a state of facts such as we have in the present case.

In *Dowagiac* v. *Minnesota,* 235 U. S. 641, this Court said with respect to the burden of proof in a case where the patented invention created only a part of a defendant's profits:

"But as the drills were sold in completed and operative form, the profits resulting from the several parts were necessarily commingled. It was essential, therefore, that they be separated or apportioned between what was covered by the patent and what was not covered by it; for, as was said

in *Westinghouse Electric & Mfg. Co.* v. *Wagner Electric & Mfg. Co., supra* (p. 615): 'In such case, if plaintiff's patent only created a part of the profits, he is only entitled to recover that part of the net gains.' In the nature of things the profits pertaining to the patented improvements had to be ascertained before they could be recovered by the plaintiff, and therefore it was required to take the initiative in presenting evidence looking to an apportionment."

In *Dowagiac* v. *Minnesota* and in *Sheldon et al.* v. *Metro-Goldwyn Pictures Corp. et al.*, 309 U. S. 390, this Court said that apportionment was not an insurmountable barrier but that it could be established by expert testimony. This Court emphatically stated in *Black* v. *Thorne*, 111 U. S. 122, and *Sheldon et al.* v. *Metro-Goldwyn Pictures Corp. et al.*, that a defendant should not be required to pay over to a plaintiff any larger part of its profits than the patented invention actually contributed toward those profits.

Conclusion.

The Circuit Court of Appeals for the Seventh Circuit has decided important questions of federal law in conflict with decisions of other Circuit Courts of Appeal on similar states of fact and in apparent conflict with the decisions of this Court.

Respectfully submitted,

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